

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001

NOTE 4 - PROPERTY TAXATION

Taxing Powers

The County is authorized to levy both "regular" property taxes and "excess" property taxes. Regular property taxes are subject to limitations as to rates and amounts and are imposed for general municipal purposes, including the payment of debt service on limited tax general obligation bonds. The County also may impose "excess" property taxes that are not subject to limitation when authorized by a 60 percent majority popular vote, as provided in Article VII, Section 2, of the State Constitution and *Revised Code of Washington (RCW)*, Chapter 84.52.052. To be valid, such popular vote must have a minimum voter turnout of 40 percent of the number who voted at the last County general election, except that one-year excess tax levies also are valid if the turnout is not less than 24 percent of the number who voted at the last County general election. Excess levies may be imposed without a popular vote when necessary to prevent the impairment of the obligation of contracts.

Regular property tax levies are subject to rate limitations and amount limitations, as described below, and to the uniformity requirement of Article VII, Section 1 of the State Constitution, which specifies that a taxing district must levy the same rate on similarly classified property throughout the district. Aggregate property taxes vary within the County because of its different overlapping taxing districts.

Maximum Rate Limitations. The County may levy regular property taxes for two purposes: for general municipal purposes and for road district purposes. Each purpose is subject to a rate limitation. The general municipal purposes levy is limited to \$1.80 per \$1,000 of assessed value; the County levied \$1.22453 per \$1,000 in 2001. The road district purposes levy, which is levied in unincorporated areas of the County for road construction and maintenance and other County services provided in the unincorporated areas, is limited to \$2.25 per \$1,000; the County levied \$1.72628 per \$1,000 in 2001. Both the general purposes levy and the road district purposes levy are below the maximum allowable rate because of an additional limitation on the increase from one year to the next in the amount of taxes levied.

The County is authorized to increase its general purposes levy to a maximum of \$2.475 per \$1,000 of assessed value if the total combined levies for both general and road purposes do not exceed \$4.05 per \$1,000 and if no other taxing district has its levy reduced as a result of the increased County levy (*RCW* 84.52.043).

The \$1.80 per \$1,000 limitation on the general purposes levy is exclusive of certain regular property taxes: (i) a voted levy for emergency medical services, limited to \$0.50 per \$1,000 (authorized by *RCW* 84.52.069); (ii) a voted levy to finance affordable housing for very low income households, limited to \$0.50 per \$1,000 (authorized by *RCW* 84.52.105); and (iii) a non-voted levy for conservation futures, limited to \$0.0625 per \$1,000 (authorized by *RCW* 84.34.230). A tax for emergency medical services has been authorized for three years beginning in 1999, at a rate of \$0.29 per \$1,000. The County currently is levying \$0.06246 per \$1,000 for conservation futures. In 2000, voters in the County approved a levy of \$0.05784 per \$1,000, which is in excess of the regular property tax increase limitation, to finance an automated fingerprint identification system. This five-year levy began in 2001; the current levy rate is \$0.05784 per \$1,000.

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One Percent Aggregate Regular Property Tax Levy Limitation. Aggregate regular property tax levies by the State and all taxing districts except port districts and public utility districts are subject to a rate limitation of one percent of the true and fair value of property (or \$10.00 per \$1,000) by Article VII, Section 2 of the State Constitution and by RCW 84.52.050.

\$5.90/\$1,000 Aggregate Regular Property Tax Levy Limitation. Within the one percent limitation described above, aggregate regular property tax levies by all taxing districts except the State, port districts and public utility districts are subject to a rate limitation of \$5.90 per \$1,000 of assessed value (or 0.59%) by RCW 84.52.043(2). This limitation is exclusive of levies for emergency medical services, affordable housing for very low income households and acquiring conservation futures.

If aggregate regular property tax levies exceed the one percent or \$5.90 per \$1,000 limitations, levies requested by "junior" taxing districts within the area affected are reduced or eliminated according to a detailed prioritized list (RCW 84.52.010), in order to bring the aggregate levy into compliance. Junior taxing districts are defined by RCW 84.52.043 as all taxing districts other than the State, counties, cities, towns, road districts, port districts, and public utility districts.

Regular Property Tax Increase Limitation. The regular property tax increase limitation (RCW 84.55), as amended by Chapter 3, Laws of 1997 (the "Property Tax Act"), limits the total dollar amount of regular property taxes levied by an individual taxing district to the amount of such taxes levied in the highest of the three most recent years multiplied by a limit factor, plus an adjustment to account for taxes on new construction at the previous year's rate. The limit factor is defined as the greater of (i) the lesser of 106 percent or 100 percent plus inflation, or (ii) any percent up to 106 percent, if approved by a majority plus one vote of the governing body of the municipality, upon a finding of substantial need.

RCW 84.55.092 allows the property tax levy to be set at the amount that would be allowed if the tax levy for taxes due in each year since 1986 had been set at the full amount allowed under RCW 84.55. As allowed by RCW 84.55.050, within the rate limitations described above and with a majority vote of its electors, a taxing district may levy more than what otherwise would be allowed for an indefinite or limited period, or to satisfy a limited purpose. A newly created taxing district can initiate its levy at the maximum permitted statutory levy rate, unless that rate would exceed any of the limitations described above.

Since the regular property tax increase limitation applies to the total dollar amount levied rather than to levy rates, increases in the assessed value of all property in the taxing district (excluding new construction) which exceed the growth in taxes allowed by the limit factor result in decreased regular tax levy rates, unless voters authorize a higher levy.

Property Tax Calendar

January 1	Taxes are levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments is due.

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May 31	Assessed value of property established for next year's levy at 100 percent of market value.
October 31	Second installment is due.

Tax Collection Procedures

Property taxes are levied in specific amounts by the County Council and the rate for all taxes levied for all taxing districts in the County is determined, calculated and fixed by the County Assessor (the "Assessor") based upon the assessed valuation of the property within the various taxing districts. The Assessor extends the tax levied within each taxing district upon a tax roll that contains the total amounts of taxes levied and to be collected and assigns a tax account number to each tax lot. The tax roll is delivered to the Treasury Operations Section Manager who is responsible for the billing and collection of taxes due for each account. All taxes are due and payable on April 30 of each tax year, but if the amount due from a taxpayer exceeds fifty dollars, one-half may be paid then and the balance no later than October 31 of that year (except that one-half of real property taxes may be paid at any time prior to October 31 if accompanied by penalties and interest accrued until the date of payment).

The methods for giving notice of payment of taxes due, collecting such taxes, accounting for the taxes collected, dividing the collected taxes among the various taxing districts, and giving notice of delinquency are covered by detailed State statutes. The County's lien on personal property taxes levied by the County Council before the filing of federal tax liens is senior to such federal tax liens. In all other respects, and subject to the possible "Homestead Exemption" described below, the lien for property taxes is senior to all other liens or encumbrances of any kind on real or personal property subject to taxation. By law, the County may commence foreclosure on a tax lien on real property after three years have passed since the first delinquency. The State's courts have not decided if the homestead law (*RCW 6.13*) gives the occupying homeowner a right to retain the first \$30,000 of proceeds of the forced sale of a family residency or other "homestead" property for delinquent general property taxes. The United States Bankruptcy Court for the Western District of Washington has held that the Homestead Exemption applies to the lien for property taxes, while the State Attorney General has taken the position that it does not.

Assessed Valuation Determination

The Assessor determines the value of all real and personal property throughout the County that is subject to *ad valorem* taxation, with the exception of certain public service properties for which values are determined by the State Department of Revenue. The Assessor is an elected official whose duties and methods of determining value are prescribed and controlled by statute and by detailed regulations promulgated by the State Department of Revenue.

For tax purposes, the assessed value of property is 100 percent of its true and fair value. Since 1996, all property in the County has been subject to on-site appraisal and revaluation every six years, and is revalued each year based on annual market adjustments. Personal property is valued each year based on affidavits filed by the property owner. The property is listed by the

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Assessor on a roll at its current assessed value and the roll is filed in the Assessor's office. The Assessor's determinations are subject to revision by the County Board of Appeals and Equalization and, if appealed, subject to further revision by the State Board of Tax Appeals. At the end of the assessment year, in order to levy taxes payable the following year, the County receives the Assessor's final certificate of assessed value of property within the County.

Accounting for Property Taxes Receivable

Property taxes levied for the current year are recorded on the balance sheet as taxes receivable and deferred revenue at the beginning of the year. Property taxes are recognized as revenue when collected in cash at which time the balance sheet accounts, Taxes receivable and Deferred revenues, are reduced by the amount of the collection. The amount of taxes receivable at year-end that would be collected soon enough to be used to pay liabilities of the current period is not material. At year-end, all uncollected property taxes are reported on the balance sheet as Taxes receivable-delinquent and Deferred revenues.

Allocation of Tax Levies

The following table compares the allocation of the 2001 and 2000 County-wide, Emergency Medical Services and unincorporated County tax levies by fund, showing for each year the original tax levy and levy rate. The original tax levy reflects the levy before any supplemental levies, tax cancellations, or other adjustments. The 2001 County-wide assessed valuation was \$188,420,103,797, an increase of \$22.1 billion from 2000. The assessed valuation for the unincorporated area levy was \$29,684,700,178, which is a decrease of \$2.6 billion from 2000.

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ALLOCATION OF 2001 AND 2000 TAX LEVIES

	2001 Original Taxes Levied (in thousands)	2001 Levy Rate (per thousand)	2000 Original Taxes Levied (in thousands)	2000 Levy Rate (per thousand)
County-wide Levy Assessed Valuation: \$188,420,103,797(1)				
Items Within Operating Levy(2)				
General Fund	\$ 201,660	\$ 1.07656	\$ 191,609	\$ 1.16031
River Improvements	2,278	0.01216	2,190	0.01326
Veterans' Relief	1,927	0.01029	1,856	0.01124
Human Services	4,282	0.02286	4,125	0.02498
Intercounty River Improvement	50	0.00027	50	0.00030
Limited G.O. Bonds Debt Service	19,181	0.10239	20,433	0.12373
Automated Fingerprint Identification System(3)	10,834	0.05784	10,602	0.06420
Total Operating Levy	<u>240,212</u>	<u>1.28237</u>	<u>230,865</u>	<u>1.39802</u>
Conservation Futures Levy(4)				
Conservation Futures Levy	6,565	0.03506	4,946	0.02997
Farmland and Park Debt Service	5,133	0.02740	5,365	0.03248
Total Conservation Futures Levy	<u>11,698</u>	<u>0.06246</u>	<u>10,311</u>	<u>0.06245</u>
Unlimited Tax G.O. Bonds (Voter-approved Excess Levy)	38,459	0.20735	37,395	0.22904
Total County-wide Levy	<u>290,369</u>	<u>1.55218</u>	<u>278,571</u>	<u>1.68951</u>
EMS Levy(5) Assessed Valuation: \$122,796,628,563(1)	<u>30,089</u>	<u>0.24624</u>	<u>29,517</u>	<u>0.27299</u>
Unincorporated County Levy Assessed Valuation: \$29,684,700,178(1)(6)				
County Road Fund	<u>50,937</u>	<u>\$ 1.72628</u>	<u>46,693</u>	<u>\$ 1.73938</u>
Total County Tax Levies	<u>\$ 371,395</u>		<u>\$ 354,781</u>	

(1) Assessed valuation for taxes payable in 2001.

(2) The operating levy tax rate is statutorily limited to \$1.80 per \$1,000 of assessed valuation.

(3) The Automated Fingerprint Identification System (AFIS) levy is a regular property tax to be assessed for five years beginning in 2001 at a levy rate of not more than \$0.05784 per \$1,000 of assessed valuation as authorized by RCW 84.55.050 and a proposition approved by a majority of the voters of King County. The levy was approved by the County voter for the period 1996-2000 at a rate of no more than \$0.0665 per \$1,000 of assessed value.

(4) The Conservation Futures levy tax rate is statutorily limited to \$0.0625 per \$1,000 of assessed valuation.

(5) The Emergency Medical Services (EMS) levy shown excludes that portion of the levy within the City of Seattle. The levy was approved by the voters of King County for a three-year period with collection beginning in 1999.

(6) The tax rate is statutorily limited to a maximum of \$2.25 per \$1,000 of assessed valuation.